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SUBJECT: BABIL'S MAGIC CARPETS FAIL TO FLY

¶1. Summary: A state-owned carpet factory in Babil produces attractive handmade carpets. But the factory loses money because its costs are even higher than the price the government sets for rugs, which is itself above competitive levels with imports. Despite the high quality of the carpets, the factory is a long way from being able to compete in the local market. End Summary

Woven by Hand, Produced by the State

¶2. The Handmade Carpet factory in Hillah, in operation for fifteen years, has over two hundred female weavers producing carpets. The factory, a state-owned enterprise (SOE) under the Ministry of Industry and Minerals (MIM), is one of two hand-made carpet SOEs in Babil province. According to factory manager Engineer Kaddum Al-Awadi, Babil has two carpet SOEs that collectively produce 60 percent of the rugs made by the seven handmade rug SOEs in Iraq.

¶3. MIM provides the factory with designs. Although one can spot some large (two-by-three meters and up) traditional patterns, the majority of the output appears designed for the, as yet non-existent, tourist trade: smaller rugs depicting the Ishtar Gate, Lion of Babylon, and Hammurabi stele. Still, the carpets are high-quality and attractive.

¶4. The PRT economic team visited the factory on April 22. The weavers, many of them accompanied by young children, sit on the floor in cavernous work spaces in front of primitive hand-loom made of metal industrial pipes.

Produced at a Loss, Still Too Expensive for Local Market

¶5. Al-Awadi said that the average worker weaves a square meter every two months with salaries between USD 150 and USD 500 per month based on education and experience. In the past, bonuses were given to workers based on productivity but that practice was discontinued. Weavers all receive a year of training before beginning work and, despite the monotony of the job, Al-Awadi said he has no problem finding new employees.

¶6. Like other SOEs, the factory is primarily designed to create jobs not profits. MIM administratively fixes prices from USD 350 to USD 500 per square meter (depending on whether cotton, wool or silk): about half labor input costs. If the carpets can be sold at the fixed price, then the factory is able to cover non-labor input costs. Still, Al-Awadi explained that the set price has little relation with local market conditions as the factory ships almost all carpets to MIM's central office in Baghdad.

¶7. The only local sale of carpets is an order of 100 small rugs, most of which were still on the looms, to the local Investment Commission to use as gifts to dignitaries and potential investors. Other attempts to sell carpets locally have failed -- the owner of Hillah's largest department store told us he would love to sell the carpets but their price is more than double that of comparable imports. Al-Awadi said he would like to explore selling carpets internationally and the PRT economic team agreed to link the factory with a Task Force for Business Stability Operations carpet marketing consultant who could explore international marketing possibilities, but

pricing will remain a challenge.

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